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Arizona Corporation Commission

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BEFORE THE ARIZONA CORPORATION COMMISSION

8 TOM FORESE, Chairman
9 BOB BURNS
10 DOUG LITTLE
11 ANDY TOBIN
12 BOYD W. DUNN

12 IN THE MATTER OF THE APPLICATION OF
13 ARIZONA PUBLIC SERVICE COMPANY FOR
14 A HEARING TO DETERMINE THE FAIR
15 VALUE OF THE UTILITY PROPERTY OF THE
16 COMPANY FOR RATEMAKING PURPOSES,
17 TO FIX A JUST AND REASONABLE RATE OF
18 RETURN THEREON, TO APPROVE RATE
19 SCHEDULES DESIGNED TO DEVELOP SUCH
20 RETURN.

Docket No. E-01345A-16-0036

18 IN THE MATTER OF FUEL AND
19 PURCHASED POWER PROCUREMENT
20 AUDITS FOR ARIZONA PUBLIC SERVICE
21 COMPANY.

Docket No. E-01345A-16-0123

NOTICE OF FILING REBUTTAL
TESTIMONY OF JEFF SCHLEGEL
ON BEHALF OF SOUTHWEST
ENERGY EFFICIENCY PROJECT
REGARDING PROPOSED
SETTLEMENT AGREEMENT

1 Southwest Energy Efficiency Project through its undersigned counsel, hereby provides
2 notice that it has this day filed the attached rebuttal testimony of Jeff Schlegel regarding
3 proposed settlement agreement.

4 DATED this 17th day of April, 2017.

5 ARIZONA CENTER FOR LAW IN
6 THE PUBLIC INTEREST

7 By 
8

9 Timothy M. Hogan

10 514 W. Roosevelt Street

11 Phoenix, Arizona 85003

12 *Attorneys for Southwest Energy Efficiency*
13 *Project*

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15 the foregoing filed this 17th day
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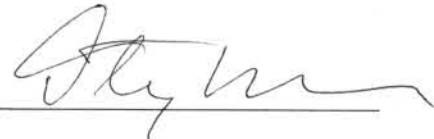
19 Arizona Corporation Commission

20 1200 W. Washington

21 Phoenix, AZ 85007

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24 17th day of April, 2017, to:

25 All Parties of Record



BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

TOM FORESE, CHAIRMAN
BOB BURNS
DOUG LITTLE
ANDY TOBIN
BOYD DUNN

IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY FOR
A HEARING TO DETERMINE THE FAIR
VALUE OF THE UTILITY PROPERTY OF THE
COMPANY FOR RATEMAKING PURPOSES,
TO FIX A JUST AND REASONABLE RATE OF
RETURN THEREON, TO APPROVE RATE
SCHEDULES DESIGNED TO DEVELOP SUCH
RETURN.

Docket No. E-01345A-16-0036

IN THE MATTER OF FUEL AND PURCHASED
POWER PROCUREMENT AUDITS FOR
ARIZONA PUBLIC SERVICE COMPANY.

Docket No. E-01345A-16-0123

Rebuttal Testimony of

Jeff Schlegel

Southwest Energy Efficiency Project (SWEEP)

on the Proposed Settlement Agreement

April 17, 2017

Settlement Rebuttal Testimony of Jeff Schlegel, SWEEP
Docket Nos. E-01345A-16-0036 and E-01345A-16-0123

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Jeff Schlegel. My business address is 1167 W. Samalayuca Drive, Tucson, Arizona 85704-3224.

Q. For whom are you testifying?

A. I am testifying on behalf of the Southwest Energy Efficiency Project (SWEEP).

Q. Please describe the Southwest Energy Efficiency Project (SWEEP).

A. SWEEP is a public interest organization dedicated to advancing energy efficiency to promote customer benefits, energy system reliability, economic prosperity, and protection of natural resources in the six states of Arizona, Colorado, Nevada, New Mexico, Utah, and Wyoming. I am the Arizona Representative for SWEEP.

Q. Did you previously file testimony in this proceeding?

A. Yes, I filed settlement direct testimony in this proceeding on April 3, 2017. I also filed revenue requirement and rate design testimony in this proceeding previously.

Q. Please provide a summary of your rebuttal testimony on the proposed Settlement Agreement.

A. As stated in my settlement direct testimony, SWEEP does not support the proposed Settlement Agreement and is not a Signing Party. While much of the proposed Settlement Agreement may be in the public interest, the following provisions are not in the public interest and do not result in just, fair, and reasonable rates:

1. Large increases in mandatory fees in the form of high Basic Service Charges for residential and small general service customers, including 15%, 73%, and 131% increases under the R-XS, R-Basic, and R-Basic Large rates. (Sections 17.1 - 17.4, and Section XX.)
2. The poorly designed residential time-of-use (TOU) rates that have a long, five-hour on-peak period (3:00 pm to 8:00 pm), which is a major burden for many customers, including families and customers who must remain at home. (Section 17.8.)
3. Restrictions on customer choice and customer rate options, specifically the 90-day waiting period before qualified new residential customers would be allowed to select the R-Basic two-part rate. (Section 19.1.)

- 1 4. The DSM funding over-collections issue proposed to be addressed in the Settlement
2 Agreement, which is counter to prior Commission procedural direction, and which
3 should be addressed in the DSM Implementation Plan proceeding as the Commission
4 directed previously. (Section 4.2 under IV. Bill Impacts)
5

6 The above provisions of the Settlement Agreement should be modified in the manner I
7 describe in my direct and rebuttal testimony prior to Commission approval of the
8 Settlement Agreement. Only then would the Settlement Agreement be in the public
9 interest, and only then would Commission adoption of the Settlement Agreement result in
10 just, fair, and reasonable rates.
11

12 **Q. Please provide a summary of how the Commission should modify the proposed**
13 **Settlement Agreement in order for it to be in the public interest.**
14

15 A. SWEEP recommends the Commission modify the proposed Settlement Agreement in the
16 following manner in order for the Agreement to be in the public interest and result in just,
17 fair, and reasonable rates:
18

- 19 1. Set the Basic Service Charges (BSCs) for residential, extra small general service, and
20 small general service customers as follows (Sections 17.1 - 17.4, and Section XX):
21
22 a. Calculate and set the residential BSCs using the Basic Service Method, which
23 results in a residential BSC of \$7.97 (or round to \$8.00) as calculated by SWEEP,
24 including for the R-XS, R-Basic, R-Basic Large, and TOU-E rates.
25
26 b. Should the Commission want to offer a financial incentive to encourage uptake of
27 the TOU-E rate through the level of the Basic Service Charge, it could set the R-
28 XS and TOU-E BSCs at \$7.97 (or \$8.00), consistent with the Basic Service
29 Method, and set the R-Basic and R-Basic Large BSCs higher at \$10 per month.
30
31 c. Calculate and set the extra small general service and small general service BSCs
32 using the Basic Service Method, which results in a BSC of \$12.00 as calculated
33 and estimated by SWEEP.
34
35 2. Set the on-peak period for residential time-of-use (TOU) rates to three hours, from
36 4:00 pm to 7:00 pm, rather than using the long, five-hour on-peak period (3:00 pm to
37 8:00 pm) in the Agreement, which is a major burden for many customers. (Section
38 17.8.)
39
40 3. Eliminate the 90-day waiting period before qualified new residential customers would
41 be allowed to select the R-Basic two-part rate. (Section 19.1.)
42

1 4. Address the DSM funding over-collections issue in the DSM Implementation Plan
2 proceeding as the Commission directed previously (Decision No. 75323), and not in
3 the Settlement Agreement. (Section 4.2 under IV. Bill Impacts)
4

5 SWEEP also recommends that the Commission require APS and/or Commission Staff to
6 provide an analysis of the bill impacts on various customers, meaning the bill impacts of
7 going from current rates to the settlement rates, including for residential and small
8 business customers.¹ SWEEP recommends that the Commission review such analysis of
9 bill impacts prior to acting on the Settlement Agreement.
10
11

12 **II. THE LARGE INCREASES IN THE BASIC SERVICE CHARGES FOR**
13 **RESIDENTIAL AND EXTRA SMALL/SMALL GENERAL SERVICE**
14 **CUSTOMERS ARE NOT JUST AND REASONABLE AND SHOULD NOT BE**
15 **APPROVED. THE PROPOSED CHANGES ARE NOT COST BASED OR IN**
16 **THE PUBLIC INTEREST.**

17 **Q. Describe the Settlement Agreement proposal to increase the Basic Service Charges**
18 **for residential, extra small general service, and small general service customers.**
19

20 A. Tables 1 and 2 show the proposed rate options, and the associated changes in the BSCs
21 that the residential, extra small general service, and small general service customers
22 would experience under the proposed Settlement Agreement.
23

¹ Unfortunately, neither APS nor Staff provided a complete bill impact analysis in the attachments to the Settlement Agreement, or in the settlement direct testimony of APS or Staff, which is a major missing piece in the settlement proceeding. SWEEP requested an appropriate analysis of the bill impacts for residential, extra small general service, and small general service customers caused by going from current rates to new settlement rates in SWEEP 2.1 and 2.2 (April 7, 2017), based on Schedule H-4 specifically. But APS did not provide the requested data or stated that SWEEP's request was "unduly burdensome" in its response (April 14, 2017).

Table 1. APS Current and Proposed Residential Rates and BSCs

Proposed Rate	Current Rate	Current BSC ²	Proposed BSC	Change to BSC (\$)	Change to BSC (%)
R-XS	E-12	\$8.67	\$10.00	\$1.33	15%
R-Basic	E-12	\$8.67	\$15.00	\$6.33	73%
R-Large	E-12	\$8.67	\$20.00	\$11.33	131%
TOU-E	ET-1 or ET-2	\$16.91	\$13.00	-\$3.91	-23%

Table 2. APS Current and Proposed Rates and BSCs for E-32 XS GS, E-32 S GS, and E-32 TOU XS and S, by Metering Type

Metering Type	Current BSC \$/day	Proposed BSC \$/day	Current BSC \$/month	Proposed BSC \$/month	Change \$	Change %
Self-contained meters	0.672	1.160	\$20.44	\$35.28	\$14.84	73%
Instrument rated meters	1.324	2.020	\$40.27	\$61.44	\$21.17	53%
Primary voltage meters	3.415	4.947	\$103.87	\$150.47	\$46.60	45%

As shown in Table 1, many APS residential customers would see significant increases in their BSCs. Customers moving from the E-12 standard rate to the R-Basic rate would see a 73% increase in the BSC, from \$8.67 per month to \$15.00 per month. The E-12 customers moving to the R-XS rate would see a 15% increase in the BSC, and the customers moving to the R-Basic Large rate would see a BSC increase of 131%.

The Settlement Agreement also proposes significant increases in the BSCs for extra small and small general service customers. The BSC increases range from 45% to 73%.

² The basic service charge for E-12 standard is approximately \$8.67 per month (\$0.285 per day for 30.42 days).

Q. Does SWEEP support these proposed increases to the BSC?

A. No. As noted and explained in my settlement direct testimony in more detail, the proposed increases to the BSC are not cost justified and are not in the public interest, and therefore should be rejected or modified.

The BSC increases are not cost justified. Only the costs directly related to serving the customer should be included as customer related costs in the BSC. My calculations of the direct, customer-related costs for the residential and small general service classes are much lower than the BSCs proposed in the Settlement Agreement and are below APS's existing BSC under the E-12 standard rate and the BSC for extra small and small general service customers.³

The proposed increases are not in the public interest. The Commission should consider the policy implications of a high fixed charge component of a customer's bill and should reject any increase that is not justified under the appropriate method used to set BSCs.

The proposed increases would reduce the amount of control residential and extra small/small general service customers have over their utility bills.

The proposed increases would be burdensome to low-income customers in particular.

The proposed increases would be punitive to apartment dwellers who have much lower than average costs.

The proposed increases mute the price signal to customers to save energy, become more energy efficient, and reduce their utility costs.

Q. What Basic Service Charges is SWEEP proposing in this phase of the case?

A: SWEEP is proposing specific Basic Service Charges for residential, extra small general service, and small general service customers. SWEEP's proposed BSCs are in Table 3.

Table 3. SWEEP-Proposed Basic Service Charges (BSCs)

Customer Class	BSC
Residential	\$7.97
Extra Small General Service	\$12.00
Small General Service	\$12.00

³ The basic service charge for E-12 standard is approximately \$8.67 per month (\$0.285 per day for 30.42 days).

1 **Q: Please describe the basis for the SWEEP-recommended BSC levels.**
2

3 A: As SWEEP has consistently testified in the rate cases for UNSE, TEP, and APS, our
4 recommended Basic Service Charge proposal is based on the Basic Service Method (also
5 known as the Basic Customer Method). This method includes only those costs that vary
6 based on the number of customers associated with meters, customer billing, and
7 "customer service" (the cost of customer installation).⁴ The Basic Service Method is the
8 only method for calculating the BSC proposed in this case that determines the BSC based
9 on cost causation and is equitable. Please refer to my direct testimony and settlement
10 direct testimony in this case for a more detailed explanation of this method and why it is
11 the appropriate method.
12

13 **Q: In your settlement direct testimony in this case you proposed a BSC of \$8.05 per**
14 **month for residential customers. In this rebuttal testimony, you are proposing a**
15 **slightly lower BSC of \$7.97. Please describe the difference between these two**
16 **SWEEP-recommended values.**
17

18 A: The lower residential BSC proposed in this testimony is adjusted based on the settled
19 ROE of 10%. The slightly higher BSC value recommended in my settlement direct
20 testimony was calculated using the originally proposed 10.5% ROE. While SWEEP is not
21 a signatory of the Settlement Agreement, SWEEP has adjusted our BSC level to address
22 this change in the case. The details of this revised calculation are included as Attachment
23 JAS-1SR (which is a revised version of the attachment included in my settlement direct
24 testimony).
25

26 **Q: Please describe SWEEP's recommended BSC for extra small and small general**
27 **service customers.**
28

29 A: SWEEP is recommending a BSC of \$12.00 per month for extra small and small general
30 service customers. SWEEP calculated this amount using APS' response to Staff 5.23
31 (included as Attachment JAS-2SR). In its response, APS outlined the unit cost for basic
32 services for residential and general service tariff options. Table 4 shows the unit costs for
33 extra small and small general service customers, as calculated by APS.
34

⁴ In this case, "customer service" refers to the cost of customer installation in accounts 369 and 587.

**Table 4. E-30 and E-32 Basic Service Charge Unit Costs as Presented in
APS Response to Staff 5.23. (Full APS response included as Attachment JAS-2SR)**

Line	Category	Total cost	Cost per customer per month
1	Distribution Costs		
2	Distribution (Transformers, Secondary & Services)	22,257,346	15.20
3	Distribution Costs Total	22,257,346	15.20
4	Revenue Cycle Costs		
5	Distribution (Customer Accounts, Cust. Service, Sales)	11,125,735	7.60
6	Metering	14,443,876	9.86
7	Billing	1,324,669	0.90
8	Meter Reading	390,210	0.27
9	Revenue Cycle Costs Total	27,284,490	18.63
10	Total BSC	49,541,837	33.83

Table 4 shows both distribution costs and revenue cycle costs for the BSC. Several cost categories included in this APS response should be rejected for the BSC as these costs are not customer related. The costs to be rejected include all distribution plant costs (\$15.20 per month) and the distribution revenue cycle costs (\$7.60 a month). The remaining costs for meters, meter reading, and billing should all be recovered in the BSC. The remaining costs sum to \$11.03 per customer per month.

Q: The \$11.03 amount is lower than the SWEEP recommended value of \$12.00. Please explain.

1 A: There are likely some "customer service" costs included in the distribution revenue cycle
2 costs that are customer related, but it is difficult to determine which FERC accounts are
3 included in this number. The APS cost of service model as shared in the discovery room
4 make this estimate difficult as well.
5

6 SWEEP calculated the residential BSC using values obtained from the filed cost of
7 service study and APS directly through informal discovery. Using this information,
8 SWEEP calculated a BSC of \$7.97 for residential customers. APS also presented the unit
9 costs for residential customers in response to Staff 5.23 (attached as JAS-2SR). The
10 meter, meter reading, and billing costs in the APS response to Staff 5.23 for residential
11 customers sum to \$7.58, approximately \$0.40 less than the SWEEP-calculated BSC for
12 residential customers. This result shows there is potentially a small amount of customer-
13 related cost left in the revenue cycle distribution costs. For residential customers, the
14 \$0.40 represents about 6% of the revenue cycle distribution costs. 6% of the revenue
15 cycle distribution costs for E-30 and E-32 BSC would be \$0.49. Therefore, the extra
16 small general service and small general service BSC is approximately \$11.52. SWEEP
17 recommends a BSC of \$12.00 as a conservative estimate of the BSC for these customers,
18 relying on the Basic Service Method.
19

20 **Q. Given these concerns and SWEEP's analysis, what does SWEEP recommend?**
21

22 A. SWEEP recommends that the proposed increases to the BSCs set forth in the Settlement
23 Agreement be modified. Specifically, SWEEP recommends the Commission modify the
24 proposed Settlement Agreement by setting the Basic Service Charges (BSCs) for
25 residential, extra small general service, and small general service customers as follows
26 (Sections 17.1 - 17.4, and Section XX of the Settlement Agreement):
27

- 28 1. Calculate and set the residential BSCs using the Basic Service Method, which
29 results in a residential BSC of \$7.97 (or round to \$8.00) as calculated by SWEEP,
30 including for the R-XS, R-Basic, R-Basic Large, and TOU-E rates.
31
- 32 2. Should the Commission want to offer a financial incentive to encourage uptake of
33 the TOU-E rate through the level of the Basic Service Charge, it could set the R-
34 XS and TOU-E BSCs at \$7.97 (or \$8.00), consistent with the Basic Service
35 Method, and set the R-Basic and R-Basic Large BSCs higher at \$10 per month.
36
- 37 3. Calculate and set the extra small general service and small general service BSCs
38 using the Basic Service Method, which results in a BSC of \$12.00 as calculated
39 and estimated by SWEEP.
40

**III. THE INCREASES IN THE RESIDENTIAL BSCS AND THE BSC LEVELS
CAUSE SIGNIFICANT NEGATIVE CONSEQUENCES FOR MANY
RESIDENTIAL CUSTOMERS.**

Q. Was SWEEP able to conduct any residential bill impact analysis regarding the settlement rates?

A. SWEEP was able to conduct only a limited amount of residential bill impact analysis based on the limited bill impact data on settlement rates available in the proceeding. Unfortunately, neither APS nor Staff provided a complete bill impact analysis in the attachments to the Settlement Agreement, or in the settlement direct testimony of APS or Staff, which is a major missing piece in the settlement proceeding. SWEEP requested an appropriate analysis of the bill impacts for residential, extra small general service, and small general service customers caused by going from current rates to new settlement rates in SWEEP 2.1 and 2.2 (April 7, 2017), based on Schedule H-4 specifically. But APS did not provide the requested data or stated that SWEEP's request was "unduly burdensome" in its response (April 14, 2017).

APS did include Attachment CAM-1SD (pdf page 70) in its settlement direct testimony, but this Attachment did not include any data on bill impacts by usage level, or on bill impacts for each of the new settlement rates.

Q. What was SWEEP able to do with the limited bill impact data available on the settlement rates?

A. To compare current bills (E-12) to new bills under the settlement rates, SWEEP needed to use an internally-consistent basis including the effects for the transferred adjustors. To achieve this, SWEEP adjusted the bills for current E-12 rates by adding in the estimated \$ amounts of transferred adjustors. Specifically, SWEEP calculated the total adjustor transfer into base rates of \$0.01257/kWh using data in Schedule H-2 (APS Application, June 1, 2016, page 1 of 3 (pdf page 361)) by taking the total adjustor transfer in \$ for the residential customer class (\$168.607 million, column H minus column J) and dividing it by the residential adjusted MWh sales (column C, line 16). SWEEP used this total transferred adjustor to estimate the adjustor \$ values to add to E-12 related bills.

Q. What did SWEEP find in its bill impact analysis regarding the settlement residential rates?

A. SWEEP reached two observations based on its analysis and the limited data available. See Attachments JAS-3SR for a table showing SWEEP's analysis and the results.

1. Much of the rate increase for some customers is in the BSC – the fixed charge. Which means that customers will have less control over their utility bills and will not have any meaningful way to mitigate the impact of the rate increase. Customers first

1 receive a significant rate increase, and then experience all or most of the increase as
2 an increase in the fixed charge (BSC) – which is a double whammy for customers.
3 For example, consider a customer on the R-Basic rate with a summer bill of 700 kWh
4 per month. This customer's bill increases \$4.08 per month, but the BSC increase is
5 \$6.33 per month – more than the total bill increase. Another example is a customer
6 using 800 kWh per month in the summer, whose bill increases \$1.40 per month, but
7 the BSC increase is \$6.33 per month. Customers are losing the opportunity to control
8 their bills and mitigate the effects of the rate increase.
9

- 10 2. SWEEP observed some strange, incongruous patterns across the three residential
11 rates analyzed, with some very significant differences for customer bills and changes
12 in customer bills with just a 1 kWh change in average usage. For example, a
13 customer using 600kWh on average would have a summer bill of \$89.36 on R-XS.
14 But if that customer increased average usage to 601 kWh, then their summer bill
15 would be \$100.49 per month. This also means this customer would receive either a
16 3% bill decrease or an 8% bill increase depending on whether their average annual
17 usage was 600 kWh or 601 kWh per month. See the similar effects for a customer
18 with average annual usage around 1000 kWh per month, shown in JAS-3SR.
19

20 Both of these negative consequences are caused in part by the stepped increases in the
21 BSCs for R-Basic and R-Basic Large rates.
22

23 **Q. What does SWEEP recommend the Commission could do to remedy or reduce the**
24 **negative consequences observed in SWEEP's analysis?**
25

- 26 A. One solution to both of these negative consequences is to reduce the BSCs, and in
27 particular, to reject or reduce the proposed BSC increases.
28
29

30 **IV. RECOMMENDED RATE DESIGN: PROPERLY DESIGNED TOU RATES**
31 **WITH A SHORTER ON-PEAK PERIOD AND LOWER BSCS.**

32 **Q. What do you recommend as the appropriate and effective rate design for residential**
33 **customers?**
34

- 35 A. Properly designed, customer-friendly time-of-use rates are the most appropriate and
36 effective rate design for APS residential customers. Time-of-use (TOU) rates are a
37 superior rate design for reducing peak demands and are well known and understood by
38 customers.
39

40 Properly designed TOU rates should have lower BSCs and shorter on-peak windows that
41 customers can actually work with as a better alternative than higher fixed charges for
42 customers and higher BSCs in particular.
43

1 Specifically, the residential TOU rates should have a shorter on-peak period (three hours)
2 that is customer-friendly, meaning that more customers will be able to work with the on-
3 peak period, rather than the five-hour on-peak period proposed in the Settlement
4 Agreement. A five-hour (3:00 pm to 8:00 pm) on-peak period virtually mandates that
5 Arizona families and other customers will face high on-peak charges without any real
6 flexibility to move some activities and energy use to off-peak periods.
7

8 **Q. What does SWEEP recommend for the TOU on-peak period?**
9

10 A. The Commission should modify the Settlement Agreement by setting the on-peak period
11 to three hours, from 4:00 pm to 7:00 pm. This time period would be more attractive to
12 customers and more customers would be able to work with and manage their energy
13 usage during the peak periods – thereby resulting in less peak demand, a more effective
14 rate design overall, and more customers who are willing to work with APS to manage
15 their demand and energy use.
16
17

18 **V. RESTRICTIONS ON CUSTOMER CHOICE AND CUSTOMER RATE**
19 **OPTIONS SHOULD BE ELIMINATED.**

20 **Q. Please summarize the restriction on customer choice and customer rate options in**
21 **the Settlement Agreement.**
22

23 A. In Section 19.1, the Settlement Agreement proposes a 90-day waiting period before
24 qualified new residential customers would be allowed to select the R-Basic two-part rate.
25

26 **Q. What does SWEEP recommend?**
27

28 A. The Commission should modify the Settlement Agreement to eliminate all restrictions on
29 customer choice and customer options, including the 90-day waiting period. All
30 customers should be able to choose their rate from among the options they are eligible
31 for, and they should be able to do so on day one as an APS customer.
32

33 To make progress on rate modernization, peak demand objectives, and controlling costs,
34 Arizona should be approaching all of its efforts from the perspective of the customer.
35 APS and other Arizona utilities should have more customer-friendly TOU rates,
36 combined with clear and effective information, and effective rate options to *encourage*
37 customers to move to TOU – and not mandate the rates upon customers. This is the
38 appropriate next step in the process.
39
40

VI. THE DSM FUNDING OVER-COLLECTIONS SHOULD BE ADDRESSED IN THE DSM IMPLEMENTATION PLAN PROCEEDING, CONSISTENT WITH PRIOR COMMISSION DIRECTION.

Q. What does the Settlement Agreement propose to do with \$15 million in DSM funding over-collections?

A. The Settlement Agreement proposes to refund \$15 million in DSM funding over-collections to mitigate the first-year bill impacts of the APS rate increase.

Q. Why is there an over-collection of DSM funding?

A. Four primary factors contributed to the build up of DSM funding over-collections in the past: (1) APS overestimating the costs of DSM; (2) APS under-spending its authorized DSM budget in some years; (3) the change in how the DSM adjustor charge (DSMAC) was set, from historic to projected, and the effect of collecting for both historic and projected funding at the same time during the transition period; and (4) the DSM adjustor charge remaining at higher-than-needed levels, especially during the 2013 timeframe.

Q. How have these DSM over-collected funds been used in the past?

A. In the recent past, APS proposed and has used the DSM funding over-collections in order to provide stable funding for DSM and not increase the DSM surcharge. For example, in response to SWEEP 2.3 (April 14, 2017), APS explained that it funded 2016 DSM programs by “collect[ing] approximately \$52.6M from the DSMAC and us[ing] approximately \$6.3M from the unallocated funds” (the DSM funding over-collections). This use of the DSM funding over-collections in the 2016 DSM Plan was fully consistent with what APS proposed, and the Commission approved this use in Decision No. 75679.

The DSM funding over-collections have also supported Commissioner-identified DSM initiatives, including a \$2 million energy efficiency pilot program for schools (Decision No. 75323) and a \$4 million energy storage requirement and increased demand reductions goals established for APS (Decision No. 75679).

Q. Are the DSM over-collected funds needed to provide stable funding for DSM programs in the immediate future?

A. Yes. APS recently proposed, and the Commission approved, a flat energy savings goal for APS through 2020 and the use of the DSM funding over-collections “to smooth out the path to compliance... (and) allow APS to avoid large year-to-year budget variations in attaining the overall savings goal, which benefits all customers...” (APS 2016 Amended DSM Plan, pages 2-3, and Decision No. 75679).

SWEEP is also concerned that if the over-collected funds are not used to fund APS’ DSM

1 programs, that APS will have insufficient funds to adequately support DSM programs
2 and customer projects. In fact, in April 2017, APS reduced custom incentive levels for its
3 commercial and industrial customers by 45%, and cut the incentives for customer studies
4 by 50%, because it has insufficient DSM funds to meet customer demand. APS Notice of
5 Reduction to Measure Incentive Levels (April 6, 2017), and APS Clarification of APS
6 Notice of Reduction to Measure Incentive Levels (April 30, 2017), in Docket No. E-
7 01345A-16-0176.
8

9 **Q. What is SWEEP's recommendation?**
10

11 A. The DSM funding over-collections should be addressed in the DSM Implementation Plan
12 proceeding, as recently directed by the Commission in Decision No. 75323 (see my
13 settlement direct testimony), and should not be used to mask the impact of the rate
14 increase on customers. The Commission should review the DSM funding over-
15 collections issue in the 2017 DSM Implementation Plan proceeding, which is expected to
16 be completed during 2017. And if the Commission so decides, any refund of the DSM
17 over-collections could be provided to customers as a result of that DSM proceeding, in a
18 timely manner.
19

20
21 **VII. CONCLUSION**

22 **Q. Does this conclude your rebuttal testimony on the proposed Settlement Agreement?**
23

24 A. Yes. Thank you for the opportunity to offer my rebuttal testimony.
25

1 SWEEP Attachment JAS-1SR
2 SWEEP Calculation of Residential Basic Service Charges (BSCs)

**Arizona Public Service Customer-Related Costs
Residential Customers**

Basic Service Charge Calculation for Arizona Public Service		
Expenses	Account	Residential
Meters	597	\$ -
	586	\$ 4,535,843
	Depreciation	\$ 13,635,614
Services	587	\$ 451,498
	Depreciation	\$ 7,059,546
Meter Reading	902	\$ 1,918,588
Billing	903	\$ 38,852,643
Subtotal Expenses		\$ 66,453,731
Net to Gross on Expenses		89%
Total Expenses		\$ 74,650,338
Rate Base		
Meters		
Plant In Service	370	\$ 235,298,386
Less Accumulated Depreciation		\$ (174,585,527)
Net Plant		\$ 60,712,859
Depreciation Expense		\$ 13,635,614
Services		
Plant In Service	369	\$ 283,241,237
Less Accumulated Depreciation		\$ (111,540,648)
Net Plant		\$ 171,700,589
Depreciation Expense		\$ 7,059,546
Meters		\$ 60,712,859
Services		\$ 171,700,589
Total Rate Base		\$ 232,413,448
Grossed Up Return on RB (10% ROE)	11.46%	\$ 26,634,434
Total Customer-Related Revenue Requirement		\$ 101,284,772
Annual Bills		12,711,504
\$/Month		\$ 7.97

**SWEEP Attachment JAS-2SR
APS Response to Staff 5.23**

General Service/E-231/SL/DTD		General Service		E-20 (Church Rate)		E-32 TOU (0-100 kW)		E-32 TOU (101-400 kW)		E-32 TOU (401+ kW)		School TOU	
December Customer Count	139,289	138,443	405	379	73	55	122						
MW	41,475	39,595	236	109	164	58	141						
MWh	15,667,021	15,157,141	38,746	36,912	72,164	245,946	105,693						
Distribution (Transformers, Secondary & Services)													
Distribution Costs for BSC	55,451,214	33,115	293,782	60.45	118,943	26.15	145,370	165.95	355,877	539.21	457,089	312.22	
Distribution (Customer Accounts, Cust. Service, Sales)													
Metering	13,950,060	8.35	45,032	9.27	37,705	8.29	15,494	17.69	36,894	55.90	35,243	24.07	
Billing	18,687,504	11.18	174,255	35.86	71,835	15.79	123,832	141.36	68,945	104.46	60,725	41.48	
Meter Reading	1,510,211	0.90	4,397	0.90	4,113	0.90	792	0.90	68,597	104.46	1,324	0.90	
Revenue Cycle Costs for BSC	34,587,600	20.68	32,748,861	46.29	114,864	25.26	140,352	160.22	106,612	161.53	97,683	66.72	
Total BSC	89,974,725	53.83	70,912,280	46.01	518,764	106.74	233,807	326.17	462,489	700.74	554,772	378.94	
E-30, E-32 (0-100 kW)													
December Customer Count	122,044	4,259	1,028	32	46	1,450	1,153						
MW	15,012	8,641	7,867	1,765	4,783	1,398	1,519						
MWh	4,100,274	3,272,944	3,706,764	937,757	2,638,942	336,064	150,810						
Distribution (Transformers, Secondary & Services)													
Distribution Costs for BSC	22,257,346	15.20	8,163,972	159.74	375,726	978.45	1,251,100	2,266.48	1,434,825	82.46	9,910,810	716.31	
Distribution (Customer Accounts, Cust. Service, Sales)													
Metering	11,125,735	7.60	842,647	40.15	87,549	227.99	161,120	291.88	206,515	11.87	124,164	8.97	
Billing	14,443,876	9.86	1,970,379	39.57	136,564	35.12	196,072	355.12	623,971	35.85	12,517	0.90	
Meter Reading	1,324,669	0.90	45,926	0.80	904	0.79	1,556	0.79	1,438	0.72	1,324	0.90	
Revenue Cycle Costs for BSC	27,284,490	16.63	2,822,383	55.22	1,375,720	111.52	224,037	648.07	850,767	48.89	136,681	9.88	
Total BSC	49,541,837	33.83	10,986,355	214.96	6,119,934	496.10	599,763	2,814.56	2,285,592	131.36	10,047,491	726.18	
Total Residential													
December Customer Count	1,059,292	473,340	429,763	118,890	35,988	1,311							
MW	73,645	24,640	34,271	11,976	2,624	135							
MWh	13,518,425	3,689,073	6,464,264	2,801,983	530,434	32,670							
Distribution (Transformers, Secondary & Services)													
Distribution Costs for BSC	173,409,381	13.64	58,751,263	10.34	80,145,215	15.54	28,194,122	13.95	293,670	18.67	115,070	7.31	
Distribution (Customer Accounts, Cust. Service, Sales)													
Metering	92,878,529	7.29	41,098,999	7.24	37,761,942	7.32	10,587,732	7.21	381,905	24.28	14,135	0.90	
Billing	91,516,139	6.41	32,709,158	5.76	29,706,953	5.76	10,498,288	5.76	14,135	0.90	14,135	0.90	
Meter Reading	3,389,741	0.27	1,514,522	0.27	1,395,253	0.27	390,824	0.27	390,824	0.27	390,824	0.27	
Revenue Cycle Costs for BSC	189,084,561	14.88	80,460,913	14.17	73,509,845	14.25	20,478,796	14.35	515,408	31.70	515,408	31.76	
Total BSC	362,483,942	28.52	139,212,176	24.51	153,655,061	29.79	48,672,918	34.12	20,144,709	46.65	809,078	51.43	

SWEEP Attachment JAS-3SR
SWEEP Analysis of Bill Impacts Based on Limited Bill Impacts Data Available at the Time of Rebuttal

Summer Comparison										
Total Bill Summer					\$ Change		% Change		% of Bill Change from BSC Increase	
Usage	E-12 w/Adj.\$	R-XS	R-Basic	R-Basic L	E-12 to R-XS	E-12 to R-Basic	E-12 to R-Basic L	E-12 to R-XS	E-12 to R-Basic	E-12 to R-Basic L
100	\$ 19.61	\$ 21.68	\$ 27.39	\$ 33.43	\$ 2.07	\$ 7.78	\$ 11.75	11%		65%
200	\$ 30.56	\$ 33.35	\$ 39.78	\$ 46.84	\$ 2.80	\$ 9.23	\$ 13.49	9%		48%
300	\$ 41.50	\$ 45.02	\$ 52.18	\$ 60.25	\$ 3.52	\$ 10.68	\$ 15.23	8%		38%
400	\$ 52.44	\$ 56.70	\$ 64.57	\$ 73.66	\$ 4.25	\$ 12.12	\$ 16.97	8%		31%
500	\$ 67.52	\$ 68.37	\$ 76.96	\$ 87.08	\$ 0.85	\$ 9.44	\$ 18.71	1%		157%
600	\$ 82.59	\$ 80.04	\$ 89.36	\$ 100.49	\$ (2.55)	\$ 6.76	\$ 20.45	-3%	8%	94%
700	\$ 97.67	\$ 91.71	\$ 101.75	\$ 113.90	\$ (5.95)	\$ 4.08	\$ 22.19		4%	155%
800	\$ 112.74	\$ 103.38	\$ 114.14	\$ 127.31	\$ (9.36)	\$ 1.40	\$ 23.93		1%	451%
900	\$ 130.16	\$ 115.06	\$ 126.53	\$ 140.72	\$ (15.11)	\$ (3.63)	\$ 25.67		-3%	-174%
1000	\$ 147.59	\$ 126.73	\$ 138.93	\$ 154.14	\$ (20.86)	\$ (8.66)	\$ 27.41		-6%	-73%
1100	\$ 165.01	\$ 138.40	\$ 151.32	\$ 167.55	\$ (26.61)	\$ (13.69)	\$ 29.15			41%
1200	\$ 182.43	\$ 150.07	\$ 163.71	\$ 180.96	\$ (32.36)	\$ (18.72)	\$ 30.89			39%
1300	\$ 199.86	\$ 161.74	\$ 176.11	\$ 194.37	\$ (38.11)	\$ (23.75)	\$ 32.63			37%
1400	\$ 217.28	\$ 173.42	\$ 188.50	\$ 207.78	\$ (43.87)	\$ (28.78)	\$ 34.37			35%
1500	\$ 234.71	\$ 185.09	\$ 200.89	\$ 221.20	\$ (49.62)	\$ (33.81)	\$ 36.11			33%
1600	\$ 252.13	\$ 196.76	\$ 213.29	\$ 234.61	\$ (55.37)	\$ (38.84)	\$ 37.85			31%
1700	\$ 269.55	\$ 208.43	\$ 225.68	\$ 248.02	\$ (61.12)	\$ (43.87)	\$ 39.59			30%
1800	\$ 286.98	\$ 220.10	\$ 238.07	\$ 261.43	\$ (66.87)	\$ (48.91)	\$ 41.33			29%
1900	\$ 304.40	\$ 231.78	\$ 250.46	\$ 274.84	\$ (72.62)	\$ (53.94)	\$ 43.07			27%
2000	\$ 321.82	\$ 243.45	\$ 262.86	\$ 288.26	\$ (78.38)	\$ (58.97)	\$ 44.81			26%
										25%

Change in Residential Basic Service Charges (BSCs)

Based on a 30.42 day month			
Rate	BSC	Change from E-12	% Increase
E-12	\$ 8.67		
R-XS	\$ 10.01	\$ 1.34	15%
R-Basic	\$ 15.00	\$ 6.33	73%
R-Basic L	\$ 20.02	\$ 11.35	131%